Silver Thatch Pensions
BUILDING WEALTH ON YOUR TERMS

An educational bulletin for members of the Silver Thatch Pension Plan

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Better save than sorry – part 2

Estimating your savings at retirement

The following article supplements an article on estimating retirement income published in the April edition.

What sort of income will you need in retirement to maintain your current standard of living? And how much do you need to save to produce that income?

Most financial experts tell us you'll need to replace 50% of your employment income at retirement if you expect to maintain your living standard – and more if you have a relatively low income or still rent your home.

The conventional wisdom is that, for most of us, spending habits (and needs) change dramatically by retirement. With any luck and good planning, a number of our everyday expenses will disappear. No more mortgage, childcare expenses, everyday work expenses, or need to set aside retirement savings. At the same time, our remaining expenses – things like food, transportation, entertainment, home maintenance or rent, utilities, insurance, and others – tend to stay pretty constant.

Online calculator

So what does it take to replace 50% of your pre-retirement income? Here's what the online retirement calculator on the Silver Thatch website (**www.silverthatch.org.ky**) tells us based on typical Cayman income levels:

Current annual earnings	$20,000	$35,000	$50,000
Current age	30	30	30
Current annual savings contributions (5% employee + 5% employer)	$2,000	$3,500	$5,000
Estimated total pension savings by age 65*	$354,633	$620,608	$886,582
Total retirement savings needed to replace 50% of your pre-retirement income	$381,288	$667,255	$953,221
Surplus/(shortfall)	**($26,655)**	**($46,647)**	**($66,639)**
Additional Voluntary Contributions (AVCs) needed annually to eliminate shortfall	$164	$288	$411

* *Basic assumptions:*

- *The member retires from the plan at age 65 with 35 years of service*
- *10% annual contribution rate (5% member plus 5% employer)*
- *Average annual rate of return on savings: 6%*
- *Expected annual increase in employment earnings and savings contributions: 3%*

Obviously, your income replacement needs and results will depend on your personal circumstances and future events. Unless you are age 30 and your income specifically matches one of the examples above, we encourage you to use the online retirement calculator to prepare a personal estimate.

If you discover a shortfall, you can take full advantage of AVCs to boost your savings. As shown in the table above, even a small annual contribution can make a big difference over time. Simply contact Silver Thatch Pensions to find out how to add AVCs to your retirement savings.

Employment income of Caymanians

A Labour Force Survey Report completed in the fall of 2012 by the Cayman Islands Economics and Statistics Office profiles labour force earnings as follows:

- ⅓ of employed persons in the Cayman Islands earn $20,000 per year or less;
- ⅓ earn between $20,000 and $40,000 per year;
- ¼ earn between $40,000 and $86,000 per year; and
- About 6% earn more than $86,000 per year.

Investment Review For the quarter ended June 30, 2013

The combined value of savings held in the Silver Thatch Pension Plan's four investment portfolios stood at US$362.2 million as of June 30, 2013.

The table below shows the rates of return as of June 30, 2013, for each of the investment portfolio options offered under the Plan. Also shown (in blue) are the corresponding *benchmarks*. (A *benchmark* is the standard against which a fund's performance is judged).

For the period ended June 30, 2013 [1, 2, 3]	Quarter (three months)	Long term strategic asset allocation
Conservative Portfolio Conservative Portolio Benchmark	-2.12% -1.50%	• Cash: 3% • Equities: 19% • Bonds: 65% • Alternative Investments: 13%
Balanced Portfolio Balanced Portfolio Benchmark	-1.58% -1.04%	• Cash: 3% • Equities: 45% • Bonds: 41% • Alternative Investments: 11%
Growth Portfolio Growth Portfolio Benchmark	-0.57% -0.45%	• Cash: 3% • Equities: 70% • Bonds: 18% • Alternative Investments: 9%
Aggressive Portfolio Aggressive Portfolio Benchmark	-0.97% -0.17%	• Cash: 3% • Alternative Investments: 7% • Equities: 90%

1. Returns are expressed net of all investment management fees.
2. While the income portfolio is made available to members through additional voluntary contributions, sufficient contributions have not accumulated to date in order to implement the portfolio.
3. Each of the portfolios is managed against its own composite benchmark. Within these benchmarks, bonds, U.S. equities and international equities are represented by the following indices, respectively: US$ 1-month LIBOR, Barclays Capital Eurodollar Index, Barclays Capital US Treasury Bond Index, MSCI All Country World Index and HFRI Fund of Funds Composite Index.

Investment market highlights

In review

- U.S. equities produced positive but sluggish results, as all but one of the actively managed U.S. equity funds within our overall portfolio failed to beat the S&P 500.
- Global equity markets fell for the first time in the last four quarters. International equities (in developed countries) lagged behind U.S. stocks by more than 300 basis points.
- Most of our European equity funds outperformed their respective benchmarks.
- Emerging market equities were a performance drag, although all but one of our active managers beat the MCSI EM benchmark.
- Fixed income markets saw a massive sell-off. The prospect of reduced Federal Reserve support in bond markets drove a flight of bond investors, wreaking havoc on this asset class for most of the second quarter. Our fixed income managers were generally not able to keep pace with their underlying benchmark, and nearly 70% of them underperformed.

Outlook

- We expect the U.S. economy to expand at 3.2% in 2014. We remain positive on U.S. equities based on continued, although weak, earnings growth.
- European economic concerns have faded as Euro Zone purchasing managers indices (PMIs) have moved higher for three consecutive months. European economic momentum is expected to improve in the second half of 2013.
- Prospects remain encouraging for Japan's equity market. Earnings growth is expected to be the highest of the major developed economies over the next 12 months.
- Both China and Brazil are struggling with weak economic performance and limited structural reforms. Commodity-driven emerging market countries are expected to face more hardship than those that have strong domestic demand. As a result, we believe there is additional risk with emerging market equities. However, we have optimistic expectations for a rebound in economic activity, more supportive monetary policy and global growth to pick up in the second half of 2013.
- Within fixed income, the U.S. market has actively and aggressively adjusted to the expectation of the Federal Reserve's "tapering" (scaling back) of its quantitative easing program (bond purchasing program). The recent rise of bond yields will probably not threaten economic recovery.

A more detailed investment market commentary prepared by Deutsche Bank is available on the Silver Thatch website at **www.silverthatch.org.ky**.